

110TH CONGRESS
1ST SESSION

H. R. 4035

To study, pilot, and implement a comprehensive, structural, market-based reform to the Federal Family Education Loan Program to reduce costs to taxpayers and improve program efficiency.

IN THE HOUSE OF REPRESENTATIVES

OCTOBER 31, 2007

Mr. PETRI introduced the following bill; which was referred to the Committee on Education and Labor

A BILL

To study, pilot, and implement a comprehensive, structural, market-based reform to the Federal Family Education Loan Program to reduce costs to taxpayers and improve program efficiency.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited the “Student Loan Auction
5 Market Act”.

1 **SEC. 2. MARKET-BASED DETERMINATION OF LENDER RE-**
2 **URNS.**

3 (a) JOINT PLANNING STUDY TO SELECT AUCTION
4 MECHANISMS FOR TESTING.—

5 (1) PLANNING STUDY.—The Secretaries of
6 Education and Treasury jointly shall conduct a plan-
7 ning study, in consultation with the Office of Man-
8 agement and Budget, the Congressional Budget Of-
9 fice, the Government Accountability Office, and
10 other individuals and entities the Secretaries deter-
11 mine appropriate, to—

12 (A) examine the matters described in para-
13 graph (2) in order to determine which market-
14 based mechanisms for determining lender re-
15 turns on loans made, insured, or guaranteed
16 under part B of title IV of the Higher Edu-
17 cation Act of 1965 (20 U.S.C. 1071 et seq.)
18 shall be tested under the pilot programs de-
19 scribed in subsection (c); and

20 (B) determine what related administrative
21 and other changes will be required in order to
22 ensure that high-quality services are provided
23 under a successful implementation of market-
24 based determinations of lender returns for all
25 loans made, insured, or guaranteed under such
26 part.

1 (2) MATTERS EXAMINED.—The planning study
2 under this subsection shall examine—

3 (A) whether it is most appropriate to auc-
4 tion existing loans under part B of title IV, to
5 auction the rights to originate loans under such
6 part, or whether the sale of securities backed by
7 federally owned student loan assets originated
8 by banks acting as agents of the Federal Gov-
9 ernment would provide the most efficient mar-
10 ket-based alternative;

11 (B) matters related to efficient financial
12 organization of any auctions or sales, including
13 how loans and origination rights are bundled,
14 the capital structure of any securitization plan,
15 and issues related to servicing; and

16 (C) how to ensure that statutory, regu-
17 latory, and administrative requirements do not
18 impede separate management and ownership of
19 loans or assets backed by loans under part B
20 of title IV.

21 (3) MECHANISMS.—In determining which mar-
22 ket-based mechanisms are the most promising mod-
23 els to test the pilot programs under subsection (b),
24 the planning study shall take into account whether
25 a particular market-based mechanism will—

1 (A) ensure loan availability under part B
2 of title IV to all eligible students at all partici-
3 pating institutions;

4 (B) minimize administrative complexity for
5 borrowers, institutions, lenders, and the Federal
6 Government; and

7 (C) reduce Federal costs if used on a pro-
8 gram-wide basis.

9 (4) REPORT.—A report on the results of the
10 planning study, together with a plan for implementa-
11 tion of one or more pilot programs using promising
12 market-based approaches for determining lender re-
13 turns, shall be transmitted to Congress not later
14 than 6 months following the date of enactment of
15 this Act.

16 (5) EXCLUSION.—In conducting the planning
17 study, and proposing pilot programs for testing
18 under this section, the Secretaries of Education and
19 the Treasury shall exclude from consideration the
20 Federal PLUS loans described in section 428B that
21 are the subject of the competitive loan auction pilot
22 program under section 499 of the Higher Education
23 Act of 1965 (as added by section 701 of the College
24 Cost Reduction and Access Act).

25 (b) PILOT PROGRAMS TO BE TESTED.—

1 (1) AUTHORIZATION.—

2 (A) IN GENERAL.—Notwithstanding any
3 other provision of law, after the report de-
4 scribed in subsection (a)(4) is transmitted to
5 Congress, the Secretary of Education shall, in
6 consultation with the Secretary of the Treasury,
7 begin preparations necessary to carry out pilot
8 programs meeting the requirements of this sub-
9 section in accordance with the implementation
10 plan included in the report.

11 (B) IMPLEMENTATION DATE.—The Sec-
12 retary of Education shall commence implemen-
13 tation of the pilot programs under this sub-
14 section not earlier than July 1, 2009.

15 (C) DURATION AND LOAN VOLUME.—The
16 pilot programs under this subsection shall be
17 not more than two academic years in duration,
18 and the Secretary of Education may use the
19 pilot programs to determine the lender returns
20 for not more than—

21 (i) 10 percent of the annual loan vol-
22 ume under this part B of title IV during
23 the first year of the pilot programs under
24 this subsection; and

1 (ii) 20 percent of the annual loan vol-
2 ume under this part B of title IV during
3 the second year of the pilot programs
4 under this subsection.

5 (2) VOLUNTARY PARTICIPATION.—

6 (A) Participation in any auction-based
7 pilot program under this subsection shall be vol-
8 untary for eligible institutions and eligible lend-
9 ers participating under part B of title IV prior
10 to July 1, 2006.

11 (B) All savings to the United States Treas-
12 ury generated by such auctions shall be distrib-
13 uted to institutions participating under this sec-
14 tion on a basis proportionate to loan volume
15 under such part for supplemental, need-based
16 financial aid, except that an institution that is
17 operating as an eligible lender under section
18 435(d)(2) shall not be eligible for any such dis-
19 tribution.

20 (3) INDEPENDENT EVALUATION.—The Govern-
21 ment Accountability Office shall conduct an inde-
22 pendent evaluation of the pilot programs conducted
23 under this section and under section 499 of the
24 Higher Education Act of 1965 (as added by section
25 701 of the College Cost Reduction and Access Act).

1 Such evaluation shall be completed, and the results
2 of such submitted to the Secretary of Education, the
3 Secretary of the Treasury, and Congress, not later
4 than 120 days after the termination of the pilot pro-
5 grams under this subsection.

6 (c) PROGRAM-WIDE IMPLEMENTATION.—Notwith-
7 standing any other provision of part B of title IV, for the
8 first academic year beginning not less than 120 days after
9 the independent evaluation described in subsection (b)(3)
10 has been transmitted to Congress, and succeeding aca-
11 demic years, the Secretary of Education is authorized to
12 implement for all loans made under such part (other than
13 loans made under the William D. Ford Direct Loan Pro-
14 gram), a program-wide, market-based system to determine
15 returns to all lenders as the Secretary of Education deter-
16 mines appropriate, provided that—

17 (1) the Secretary of Education, in consultation
18 with the Secretary of the Treasury, has certified
19 that the auction-based system that the Secretary of
20 Education intends to implement on a program-wide
21 basis would—

22 (A) ensure loan availability under such
23 part to all eligible students at all participating
24 institutions;

1 (B) minimize administrative complexity for
2 borrowers, institutions, lenders, and the Federal
3 Government, including the enhancement of the
4 modernization of the student financial aid sys-
5 tem; and

6 (C) reduce Federal costs when used on a
7 program-wide basis; and

8 (2) the Secretary of Education has notified
9 Congress of the Secretary's intent to implement a
10 program-wide auction-based system, and provided a
11 description of the structure of the auction-based sys-
12 tem, at least 120 days before implementing such a
13 system.

14 (d) CONSULTATION.—

15 (1) IN GENERAL.—As part of the planning
16 study, pilot programs, and program-wide implemen-
17 tation phases described in this section, the Secretary
18 of Education shall consult with representatives of in-
19 vestment banks, ratings agencies, lenders, institu-
20 tions of higher education and students, as well as in-
21 dividuals or other entities with pertinent technical
22 expertise. The Secretary of Education shall engage
23 in such consultations using such methods as, and to
24 the extent that, the Secretary determines appro-

1 piate to the time constraints associated with the
2 study and programs.

3 (2) SERVICES OF OTHER FEDERAL AGEN-
4 CIES.—In carrying out the planning study and pilot
5 programs described in this section, the Secretary of
6 Education may use, on a reimbursable basis, the
7 services (including procurement authorities and serv-
8 ices), equipment, personnel, and facilities of other
9 agencies and instrumentalities of the Federal Gov-
10 ernment.

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